ENERGY EFFICIENCY TRENDS VOL. 16

Essential insight for consumers and suppliers of non-domestic energy efficiency in the UK

September 2016

eeVs

Bloomberg NEW ENERGY FINANCE

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SECTION 1. INTRODUCTION

Welcome to the latest edition of UK *Energy Efficiency Trends,* the leading source of market insight for the energy efficiency sector. This edition examines consumer and supplier trends in the second quarter of 2016 (March-June) and provides invaluable insight on the immediate impact of the UK's decision to exit the EU.

Last quarter's survey results were clear; respondents felt strongly that the energy efficiency sector would be best served if the UK remained in the EU. As we know, the UK electorate took a contrary view. So, what next?

This is the billion dollar question that we asked in this quarter's industry survey. And perhaps unsurprisingly the answer we got signalled 'uncertainty'. More importantly, as a result of this uncertainty, both consumers and suppliers expressed concern around how this is expected to impact energy saving activities and investments – whether it be a cooling off of customer demand (for suppliers), or higher technology and installation costs (for consumers). The sector-wide outlook has certainly been damped, confidence has certainly been hit on both sides (see our post Brexit supply-side results on page 16, consumer-side on page 19) and, as a sector, we are keen for political and economic certainty to be restored.

In other news – and re-focusing on core business for a minute – this quarter's results have also shown some material shifts in consumer buying preferences. Until now, lighting has been the dominant technology of choice. It is still top of the pile, but consumer interest in BEMS and Smart Metering has shot up considerably. Lighting looks to have taken much of the hit and we saw an uncharacteristically sharp dip this quarter. If this trend were to continue, these performance management-based technologies could potentially challenge lighting for the top spot in the forthcoming quarters. Watch this space!

So, it is an understatement to say that there's a lot going on in the UK market at the moment! In this context, we hope that the objective intelligence that *Energy Efficiency Trends* aims to deliver is more helpful and more insightful than ever.

Tom Rowlands-Rees
Bloomberg NEF

Ian Jeffries
EEVS Insight

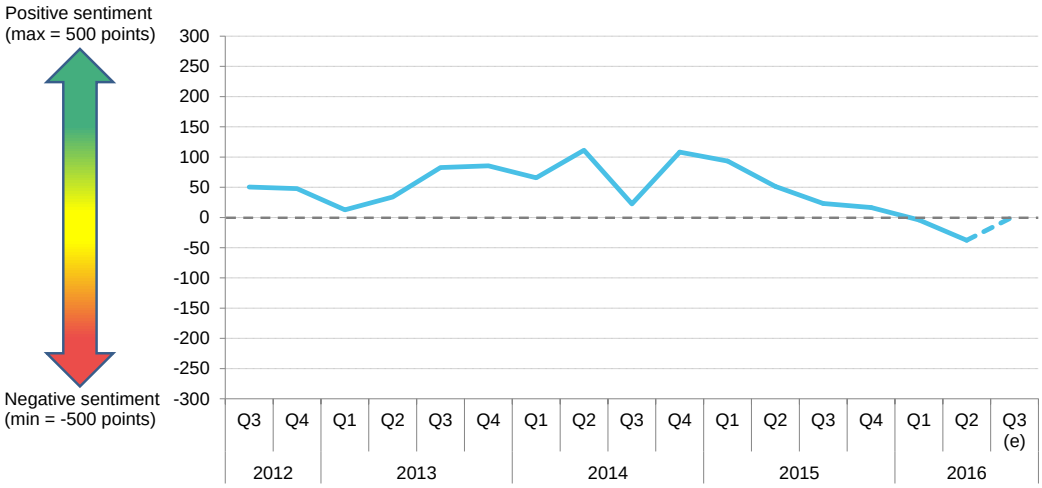
SECTION 2. EXECUTIVE SUMMARY

The EEVS/Bloomberg *Energy Efficiency Trends* Survey (Vol.16) was completed by 89 UK-based respondents (55 consumer organisations and 34 suppliers), between 11 July and 12 August, 2016. Their answers relate to the situation in the second quarter.

2.1. SUPPLIER TRENDS

- Supply-side industry confidence continued to drop off this quarter and is now firmly in negative territory. Following the all-time low of the previous quarter, the market monitor – which combines trends in supplier order books, staffing levels, sale prices and government action – fell further from -4 to -38 points, perhaps as post-Brexit concerns took hold.
- This decline in industry confidence continues to be driven by a downward trend in UK orders (Figure 3) – with around three-quarters of suppliers now reporting either stagnant of declining order books – and a further decline in confidence in respect of the government's management of energy efficiency policy (Figure 9).
- Key concerns for the sector remain largely constant – *customer demand* is still the dominant issue for 38% of suppliers, followed by *national competition* (26%) and *raising finance* (12%).
- Analysis of our ***post-Brexit poll*** also found that:
  - More than half of suppliers (56%) considered that the decision to leave the EU had negatively impacted their business, with only 35% reporting 'business as usual' activity following the referendum result.
  - Over the next 12 months, 50% of suppliers considered that the UK exit will mean reduced levels of customer demand, with 29% also expecting their overheads to rise, and 29% expecting reduced business investment.
  - In negotiating the UK exit from the EU, six out of 10 suppliers considered that energy-related regulations should be retained in full, with 35% preferring some revision and scaling back. Only 3% of suppliers consider that EU-derived regulation should be entirely removed from the UK statute book.

Figure 1: Market Monitor – tracking industry confidence, Q3 2012 – Q3 2016(e)

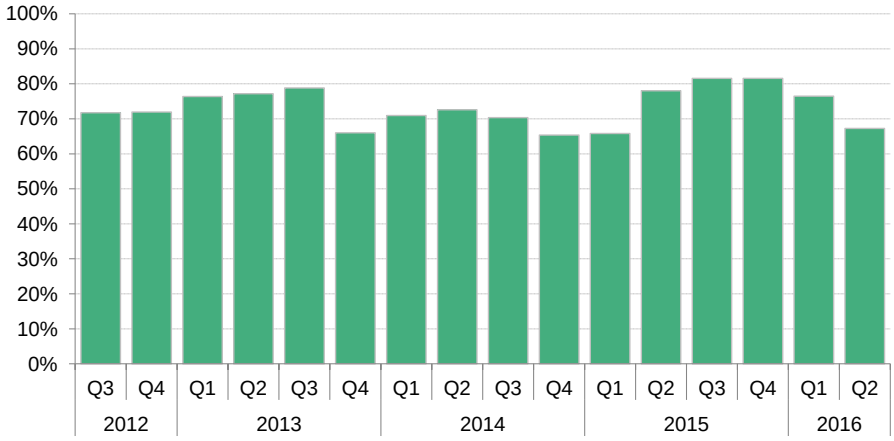


Source: EEVS, BNEF. Note: based on weighted confidence indicators from Figures 3, 4, 5, 6, and 9. Zero represents neutrality. 500/-500 indicate the maximum degrees of positive/negative sentiment possible.

2.2. CONSUMER TRENDS

- High efficiency lighting saw one of the biggest drops in deployment this quarter and, although it still remains the leading technology deployed, it was significantly down (59%) on its rolling four-quarter average (70%). It was a similar story for solar PV and behaviour change, which both saw material declines against their four-quarter averages.
- By contrast, building energy management systems (BEMS) – now the second most popular technology behind high efficiency lighting – and smart metering were the two main beneficiaries, both seeing a material increase in uptake. It will be interesting to see if this short-term trend away from lighting continues in the coming quarters.
- Volatility in capital spending continued this quarter, with a significant increase in larger projects (GBP 500,000+) being reported this quarter. This increase pushed up median project costs from the GBP 47,000 last quarter to around GBP 145,000 this quarter (and perhaps reflecting the move away from lighting and behaviour change, and towards BEMS and smart metering).
- Project finance saw a return to the longer-term trend line this quarter, with a broad 70/30 split reported between use of in-house capital and third-party finance, respectively.
- After a period of tightening payback expectations, this quarter has seen something of a correction with the median payback rising towards four years (from three years last quarter).
- Analysis of our ***post-Brexit poll*** also found that:
  - For 73% of consumers, it remained 'business as usual' following the referendum. But 25% did report either a minor or major impact on their energy saving investment plans.
  - Looking ahead to the next 12 months, only 4% of consumers considered that the UK exit would lead to lower energy prices, with 55% expecting increases. Views were similar in relation to the cost of procuring energy efficiency technologies, with only 2% expecting cost reductions, 42% expecting no material change, and 32% expecting price increases.
  - In terms of negotiating the UK exit, only 6% of consumers felt that EU policy and regulation (as it relates to energy efficiency) should be removed entirely; 55% consider it should be revised and scaled back; 39% that it should be retained as it is.
  - Finally, the main advice to UK policy-makers from consumer respondents was for the government to take action to reduce economic uncertainty and to focus on UK energy security and driving energy efficiency.

Figure 2: Consumers commissioning efficiency projects, Q3 2012 – Q2 2016

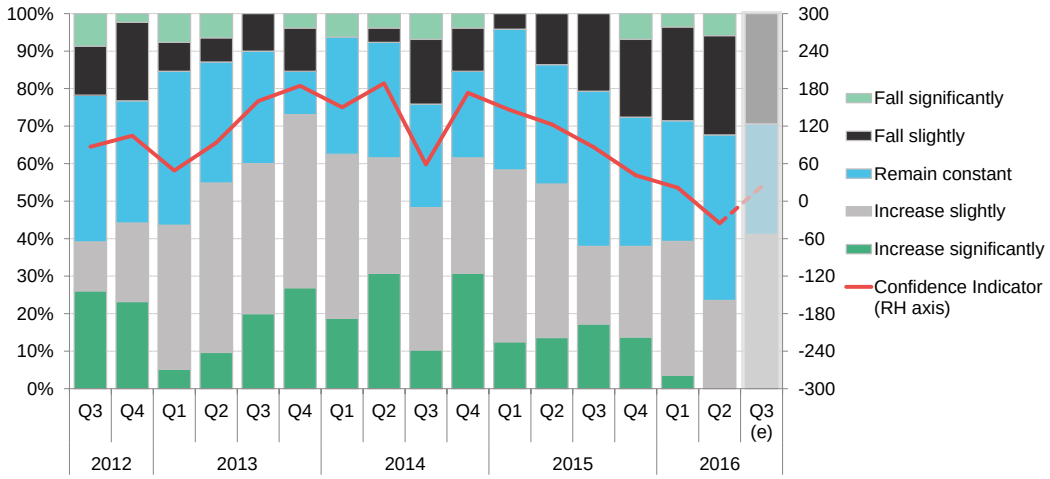


Source: EEVS, BNEF. Note: shows the proportion of respondents who have commissioned (or plan to commission) projects in a given quarter.

SECTION 3. SUPPLIER TRENDS

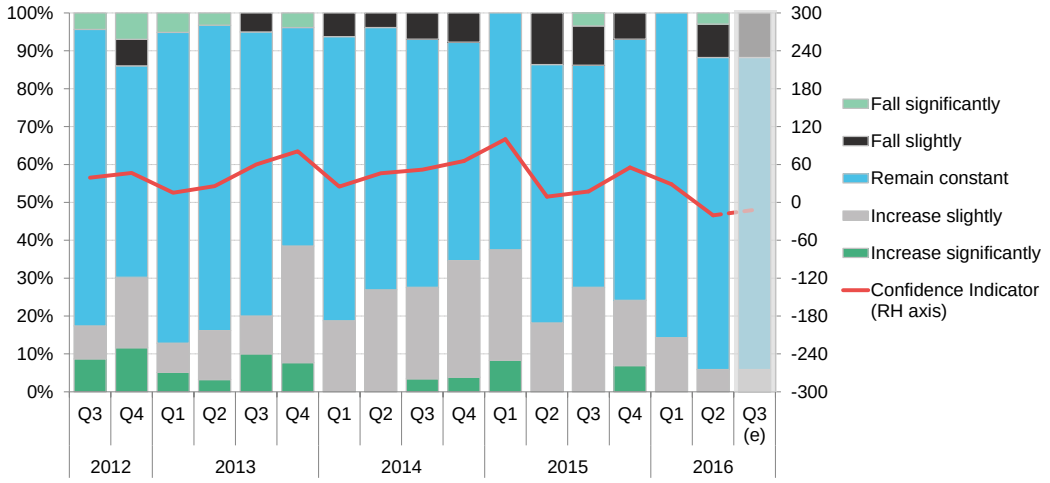
3.1. THE ORDER BOOK

Figure 3: Trends in orders from national customers, Q3 2012 – Q3 2016(e)



Source: EEVS, BNEF. Note: the confidence indicator is an input to the market monitor in Figure 1. Zero represents neutrality. 500/-500 indicate the maximum degrees of positive/negative sentiment possible.

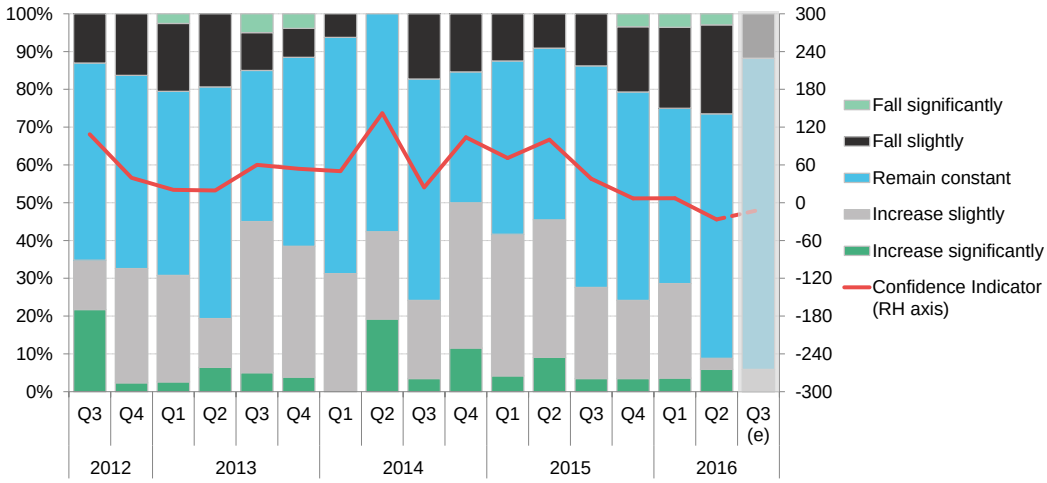
Figure 4: Trends in orders from overseas customers, Q3 2012 – Q3 2016(e)



Source: EEVS, BNEF. Note: the confidence indicator is an input to the market monitor in Figure 1. Zero represents neutrality. 500/-500 indicate the maximum degrees of positive/negative sentiment possible.

3.2. STAFF NUMBERS

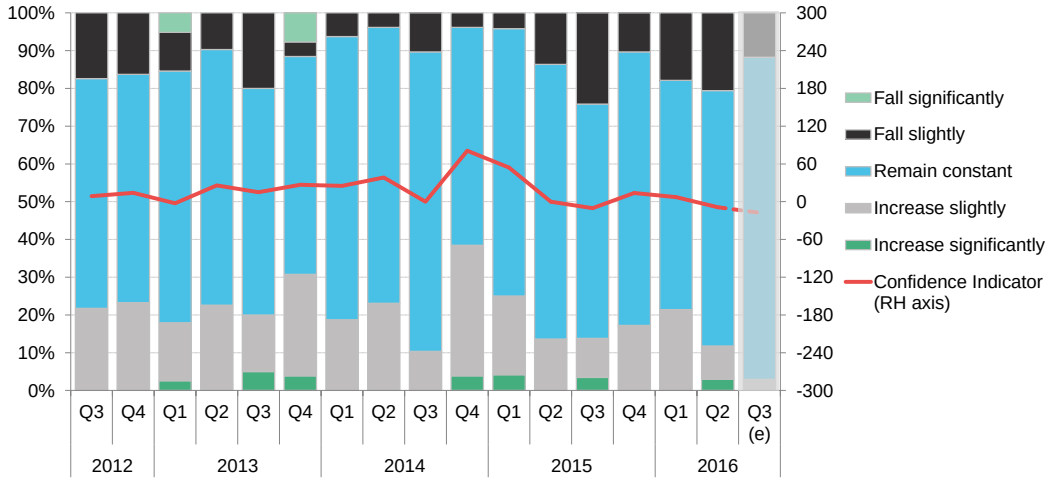
Figure 5: Trends in the number of staff employed, Q3 2012 – Q3 2016(e)



Source: EEVS, BNEF. Note: the confidence indicator is an input to the market monitor in Figure 1. Zero represents neutrality. 500/-500 indicate the maximum degrees of positive/negative sentiment possible.

3.3. SALE PRICES

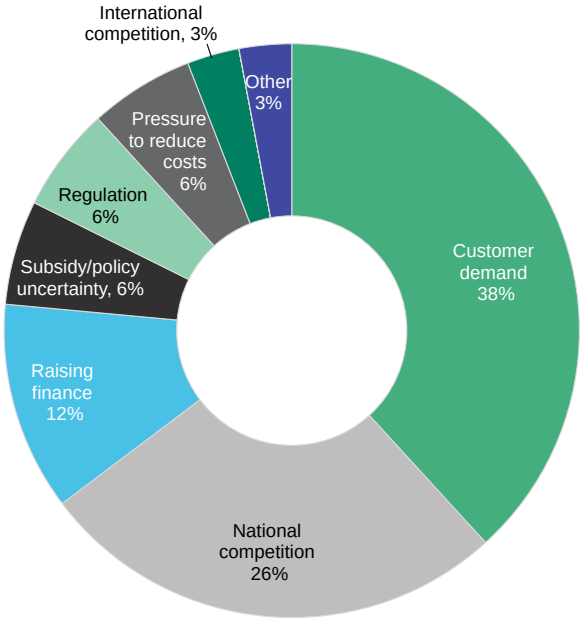
Figure 6: Trends in sale prices achieved, Q3 2012 – Q3 2016(e)



Source: EEVS, BNEF. Note: the confidence indicator is an input to the market monitor in Figure 1. Zero represents neutrality. 500/-500 indicate the maximum degrees of positive/negative sentiment possible.

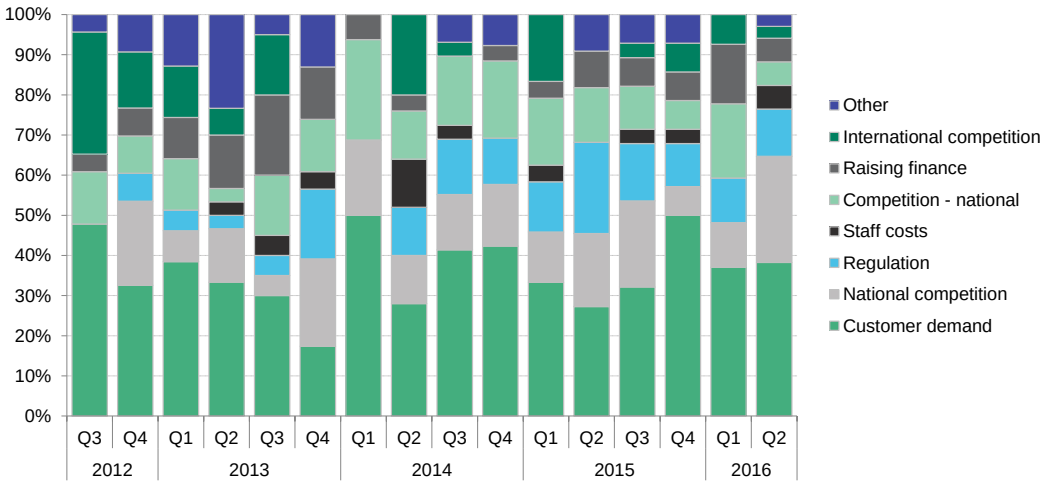
3.4. INDUSTRY RISK

Figure 7: Key issues of concern to energy-efficiency suppliers, Q2 2016



Source: EEVS, BNEF. Note: each supplier respondent was asked to select their primary issue of concern. Therefore results sum to 100%.

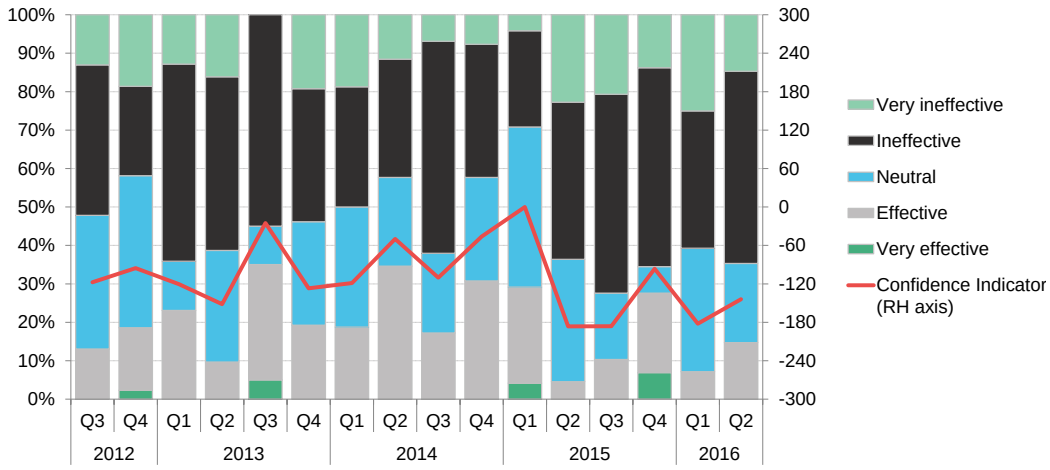
Figure 8: Trends in key issues of concern, Q3 2012 – Q2 2016



Source: EEVS, BNEF. Note: each supplier respondent was asked to select their primary issue of concern, therefore results sum to 100% in each period.

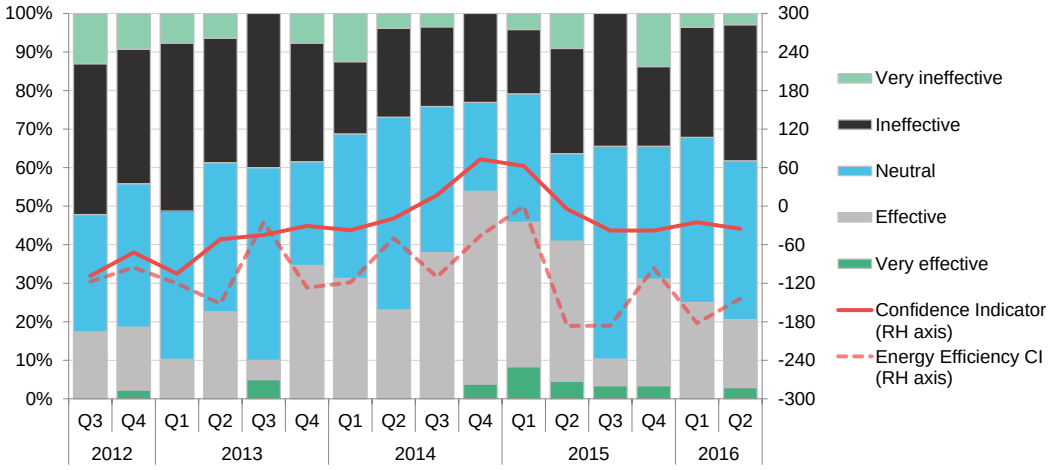
3.5. GOVERNMENT EFFECTIVENESS

Figure 9: Trends in industry views on energy efficiency policy, Q3 2012 – Q2 2016



Source: EEVS, BNEF. Note: the confidence indicator is an input to the market monitor in Figure 1. Zero represents neutrality. 500/-500 indicate the maximum degrees of positive/negative sentiment possible.

Figure 10: Industry views of the wider economy's management, Q3 2012 – Q2 2016

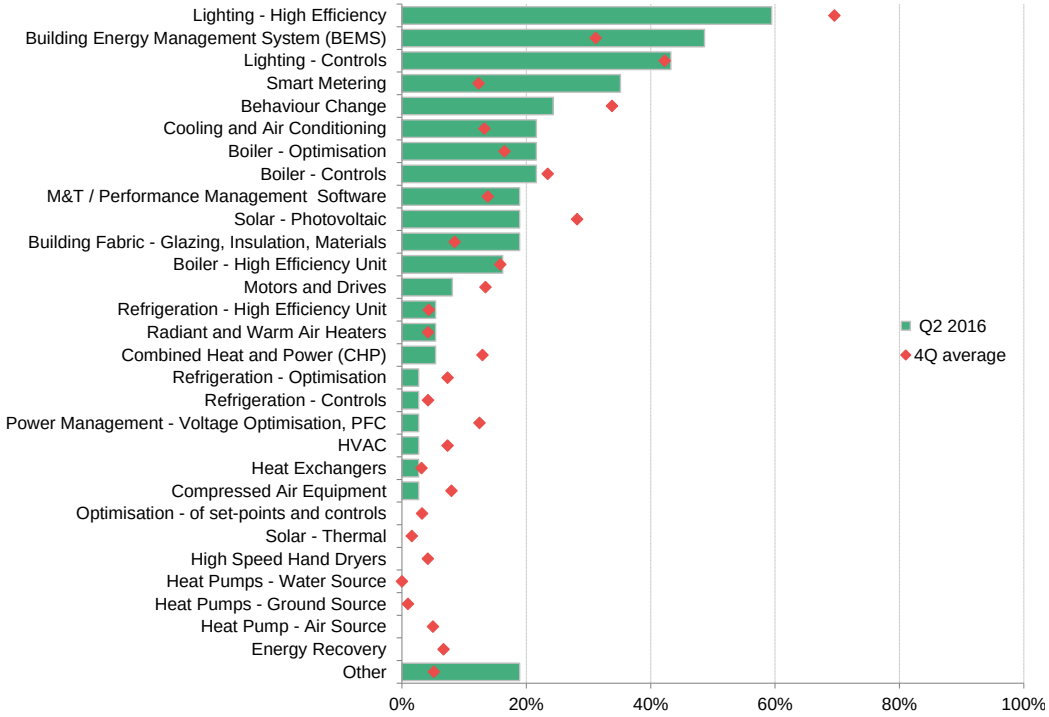


Source: EEVS, BNEF. Note: CI = confidence indicator. The dotted line represents the CI from Figure 9 which is overlaid here for comparison with views on the wider economy. Zero represents neutrality. 500/-500 indicate the maximum degrees of positive/negative sentiment possible.

SECTION 4. CONSUMER TRENDS

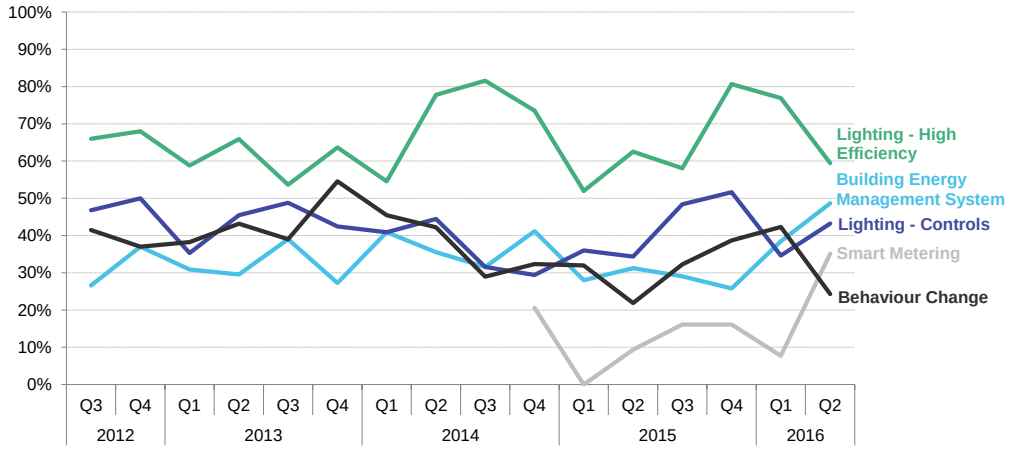
4.1. TECHNOLOGIES & MEASURES

Figure 11: Uptake of energy efficiency technologies, Q2 2016 v four-quarter average



Source: EEVS, BNEF. Note: ranks technologies according to the proportion of consumers who commissioned a project in each technology out of the overall number of consumers commissioning projects. PFC = power factor correction.

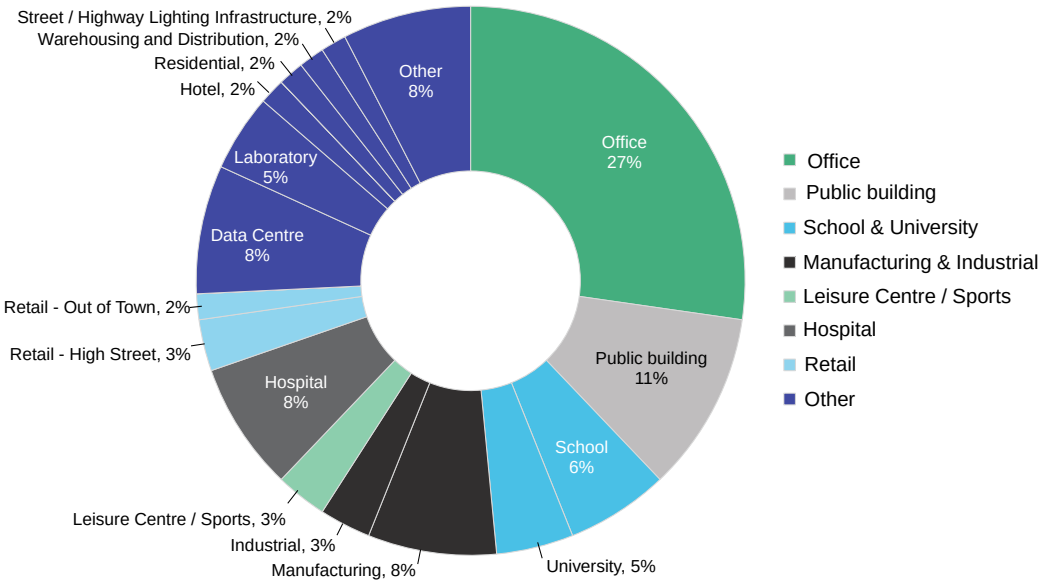
Figure 12: Trends in top technologies for consumer uptake, Q3 2012 – Q2 2016



Source: EEVS, BNEF. Note: shows the proportion of respondents who commissioned a project in the respective category out of the total number of respondents who commissioned a project. Smart metering was only tracked from Q4 2014 onward.

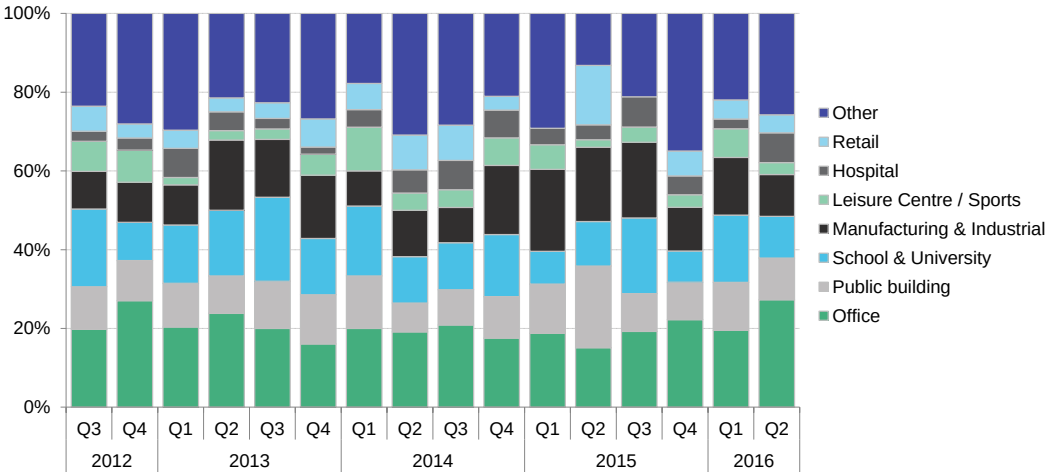
4.2. PROPERTY TYPES

Figure 13: Breakdown of commissioned projects by property type, Q2 2016



Source: EEVS, BNEF

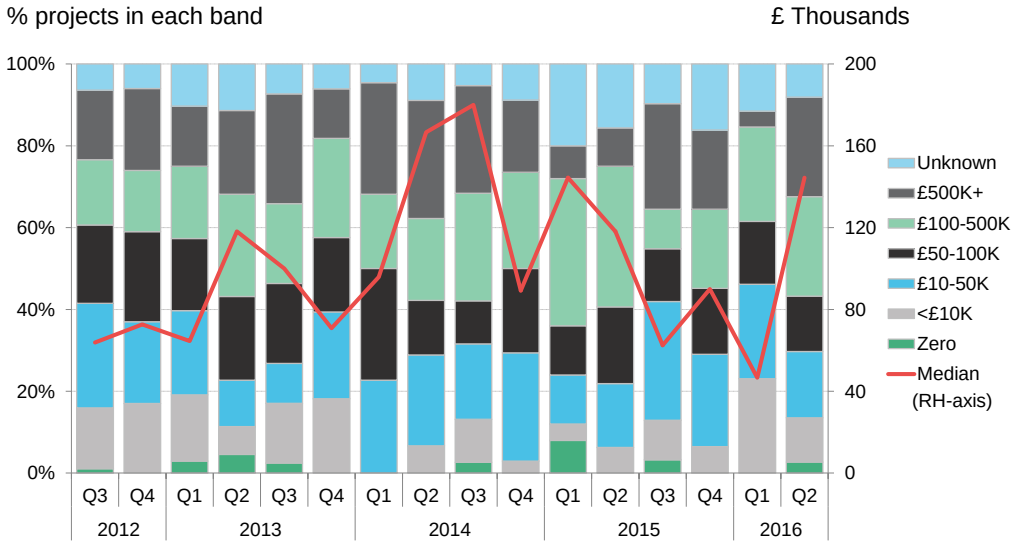
Figure 14: Trends of commissioned projects by property type, Q3 2012 – Q2 2016



Source: EEVS, BNEF

4.3. PROJECT COSTS

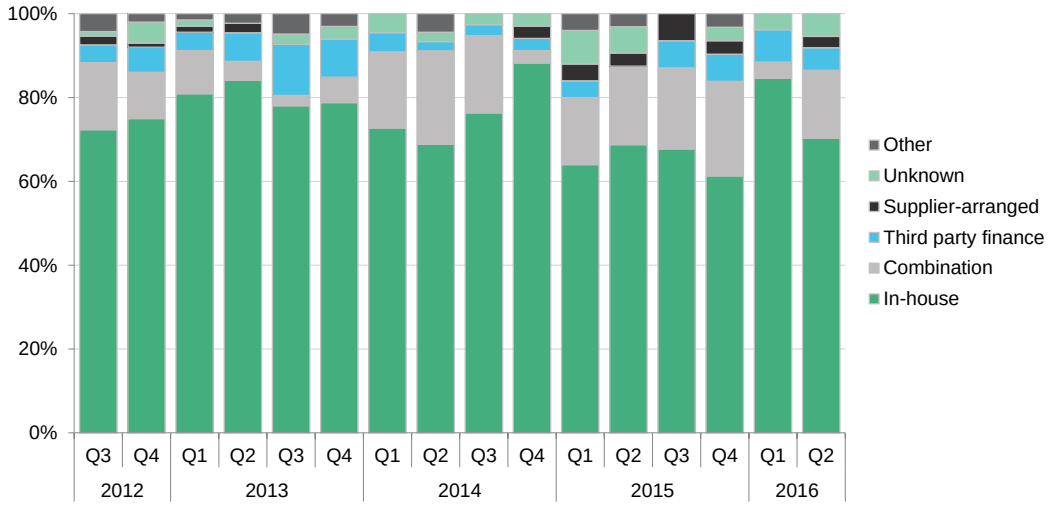
Figure 15: Trends in capital costs, Q3 2012 – Q2 2016



Source: EEVS, BNEF. Note: the line shows the cost trend for energy efficiency projects over time based on the estimated median.

4.4. PROJECT FINANCE

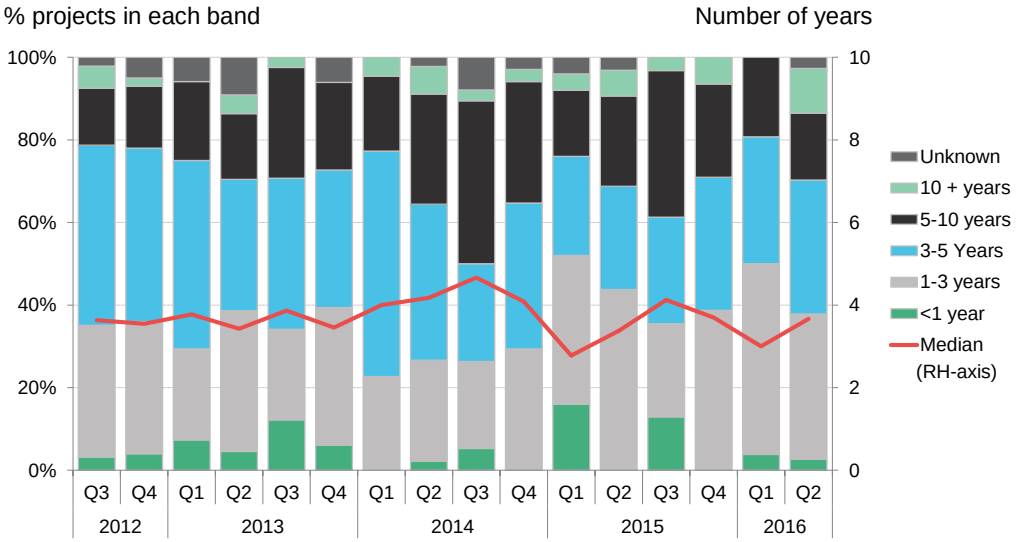
Figure 16: Trends in finance models, Q3 2012 – Q2 2016



Source: EEVS, BNEF

4.5. FINANCIAL PAYBACK

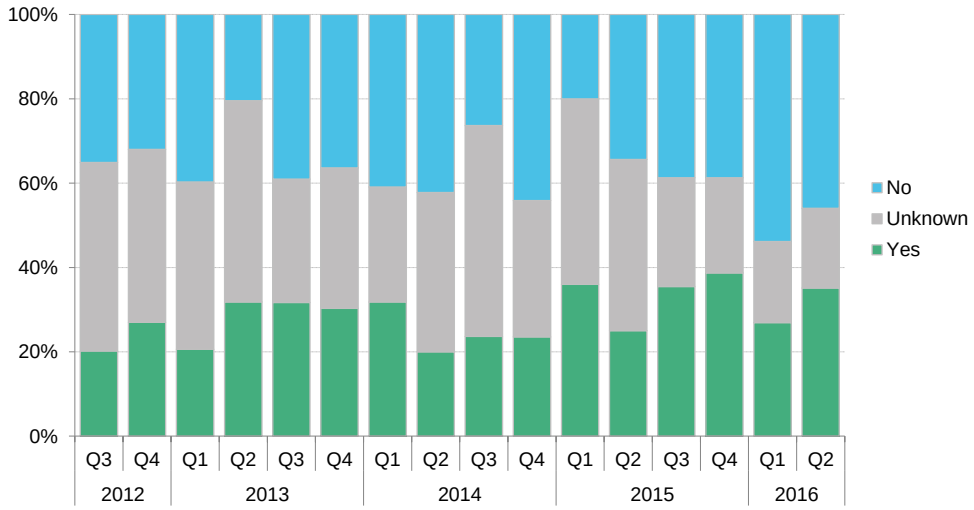
Figure 17: Trends in expected payback periods, Q3 2012 – Q2 2016



Source: EEVS, BNEF. Note: the line shows the expected payback trend for energy efficiency projects based on the estimated median.

4.6. MEASUREMENT AND VERIFICATION

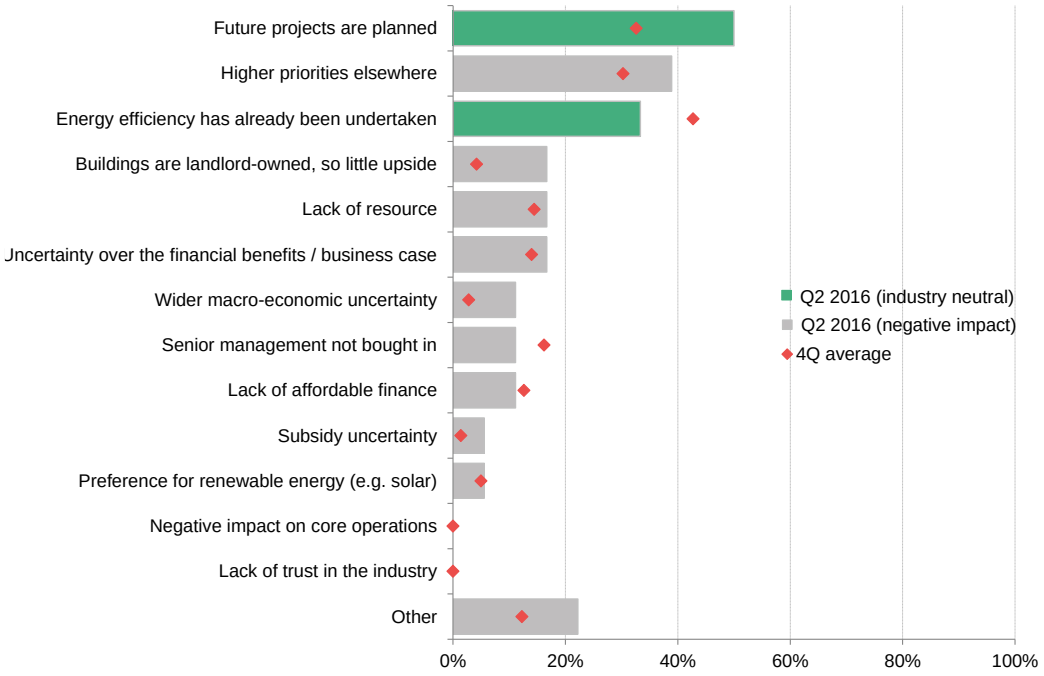
Figure 18: Trends in the use of good practice M&V, Q3 2012 – Q2 2016



Source: EEVS, BNEF. Note: M&V = measurement and verification.

4.7. CONSUMERS NOT UNDERTAKING ENERGY EFFICIENCY

Figure 19: Consumer reasons for lack of efficiency uptake, Q2 2016 v four-quarter average



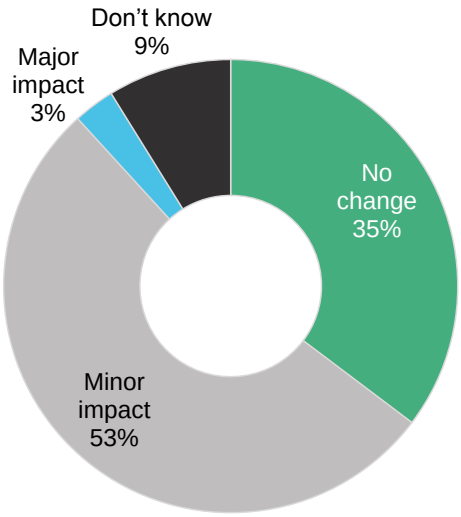
Source: EEVS, BNEF. Note: respondents not commissioning projects may have cited multiple reasons. The chart shows the proportion of respondents in each category out of overall respondents, not commissioning projects. Results therefore do not sum to 100.

SECTION 5. SPECIAL FEATURE: POST-BREXIT IMPACTS ON ENERGY EFFICIENCY

The momentous decision for the UK to leave the EU has been made and it is expected to have far reaching consequences, not least on the UK energy efficiency sector. Looking back at Vol. 15, the decision to leave the EU is not one the majority of the UK energy efficiency industry would have made, so in this edition we have asked suppliers and consumers for their views on 'what next?' in this brave new world; how the decision is likely to impact them over the next 12 months; and what the government should do next to support the sector. The results are set out below:

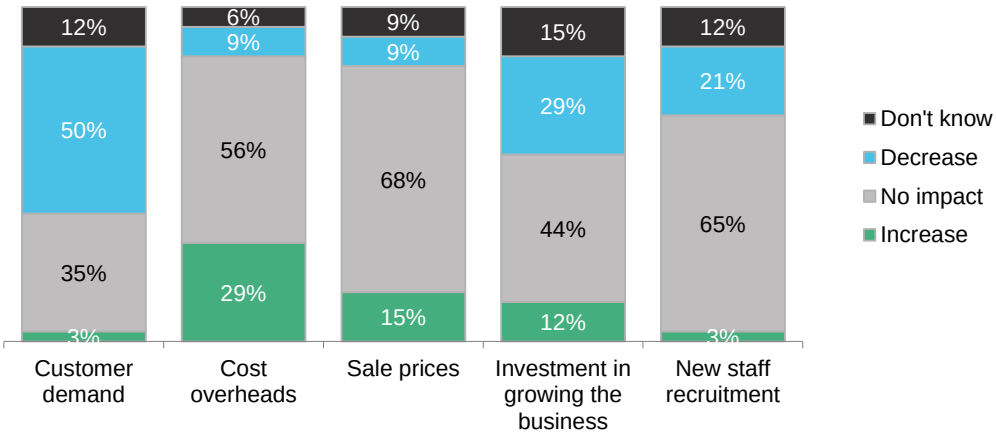
5.1. SUPPLIERS

Figure 20: Supplier business impact following the vote to leave the EU



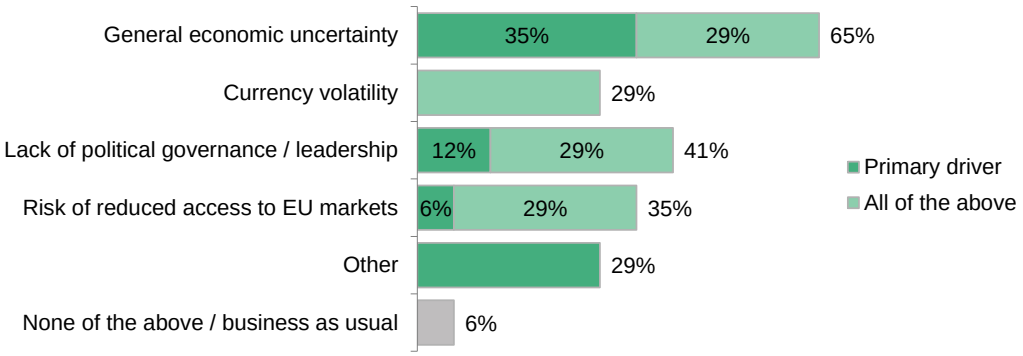
Source: EEVS, BNEF. Note: suppliers were asked: 'to what extent has it been business as usual for your organisation following the vote to leave the EU?'

Figure 21: Expected impact on key business areas over the next 12 months



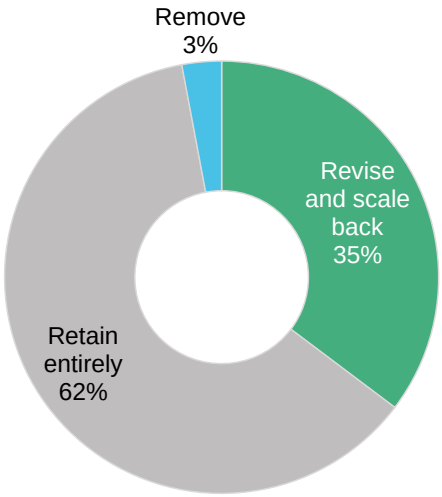
Source: EEVS, BNEF. Note: suppliers were asked: 'looking ahead over the next 12 months, how do you think the Brexit decision will impact your organisation in respect of the following: customer demand, cost overheads, sale prices, investment in growing the business, new staff recruitment?'.

Figure 22: Views on the principal driver for results in Figures 20 and 21 above



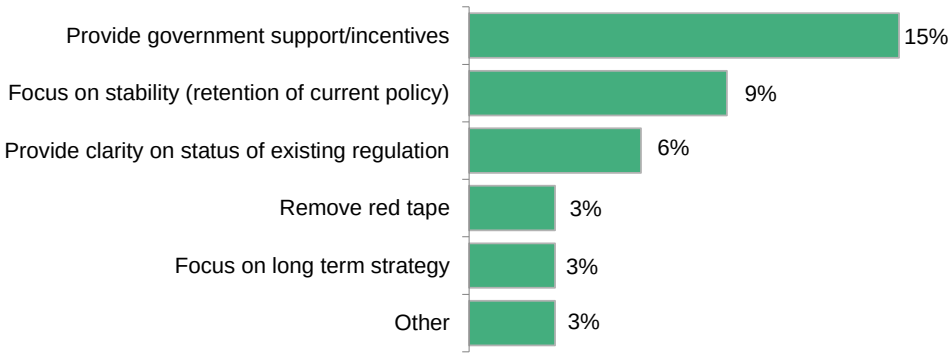
Source: EEVS, BNEF

Figure 23: Supplier views on what Brexit negotiations should aim for – in relation to EU-derived energy efficiency legislation (such as ESOS and EPBD)



Source: EEVS, BNEF

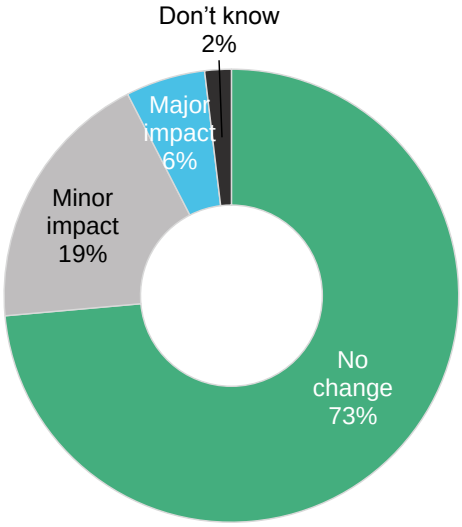
Figure 24: Suggested focus areas for the UK Government in the wake of the Brexit vote



Source: EEVS, BNEF. Note: suppliers were asked if they had any specific suggestions for the UK Government on what it could do now to address sector-related concerns or minimise negative impacts of a Brexit. Responses were grouped into six broad categories shown above.

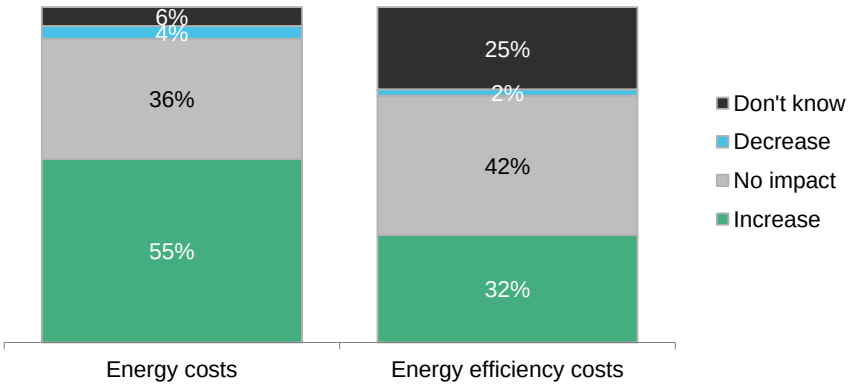
5.2. CONSUMERS

Figure 25: Consumer business impact following the vote to leave the EU



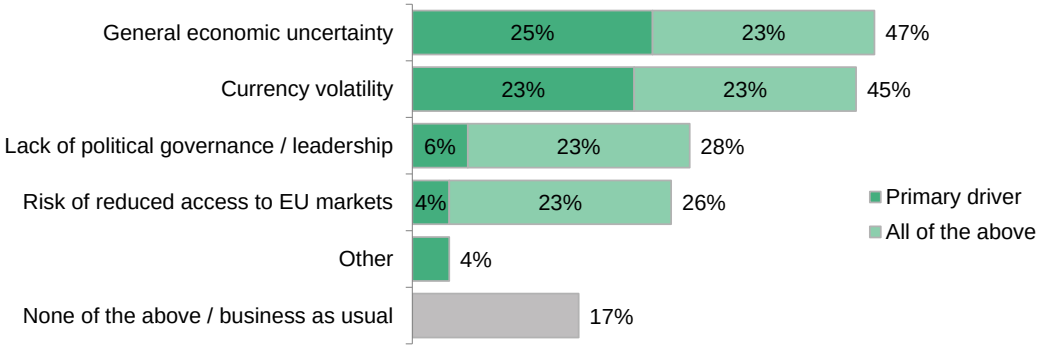
Source: EEVS, BNEF. Note: consumers were asked: 'to what extent has it been business as usual for your organisation (in relation to energy efficiency programmes) following the vote to leave the EU?'

Figure 26: Expected impact on consumer business costs over the next 12 months



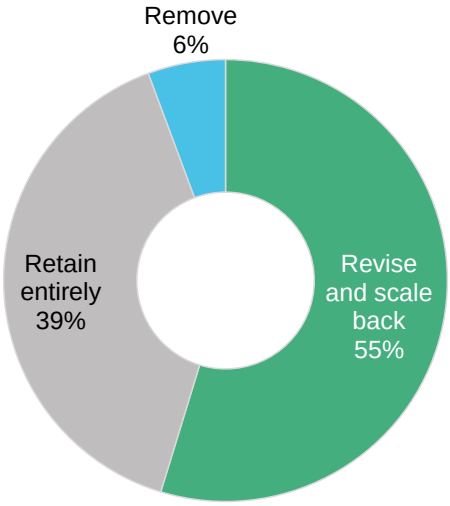
Source: EEVS, BNEF. Note: consumers were asked: 'looking ahead over the next 12 months, how do you think the Brexit decision will impact your organisation in respect of the following: energy costs, energy efficiency costs?'

Figure 27: Views on the principal driver for results in Figures 25 and 26 above



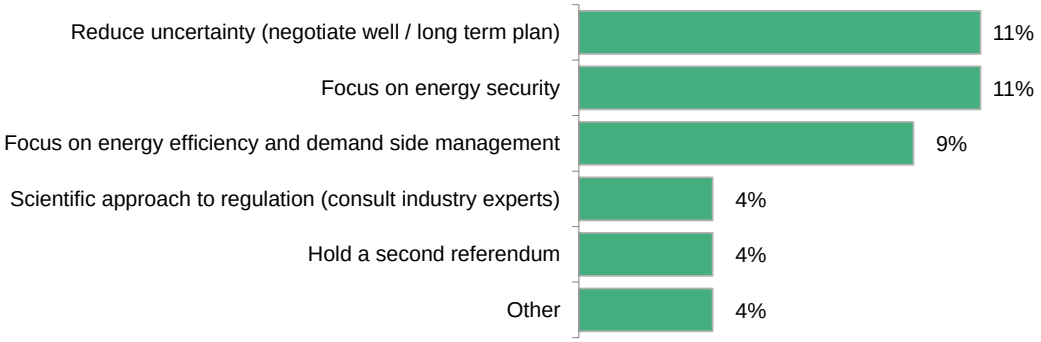
Source: EEVS, BNEF

Figure 28: Consumer views on what Brexit negotiations should aim for – in relation to EU-derived energy efficiency legislation (such as ESOS and EPBD)



Source: EEVS, BNEF

Figure 29: Suggested focus areas for the UK Government in the wake of the Brexit vote



Source: EEVS, BNEF. Note: consumers were asked if they had any specific suggestions for the UK Government on what it could do now to address sector-related concerns or minimise negative impacts of Brexit. Responses were grouped into six broad categories shown above.

APPENDICES

Appendix A: Methodology

The EEVS/Bloomberg *Energy Efficiency Trends* Survey (Vol.16) was conducted between 11 July and 12 August, 2016, and completed by 89 UK-based respondents (55 consumer organisations and 34 suppliers).

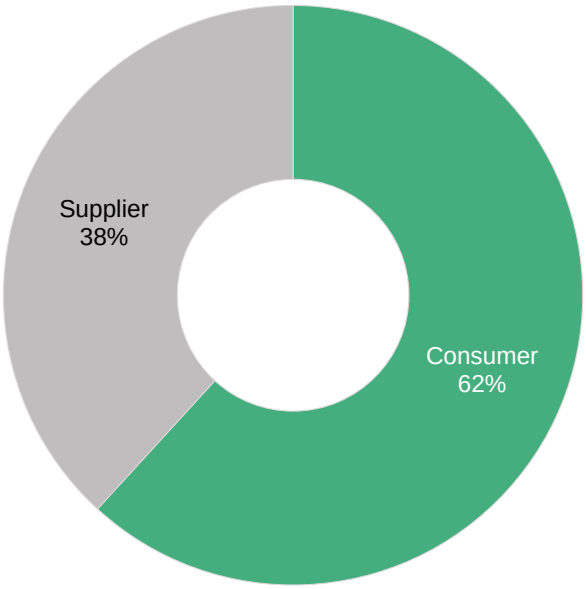
This is the 16th in a series of reports showing industry trends in non-residential energy efficiency. As the report series evolves, we continue to make minor tweaks.

Initially, the report covered a broad range of European countries, but since Volume 8, it has presented UK-based results only, as these consistently accounted for the bulk of data received.

In focusing the report on a single country with better data coverage, we were able to present cleaner, more robust results. This coincided with a revamp of the analysis including – among other modifications – the introduction of a set of time series charts.

The latest modification to the series is to produce a fully annotated annual report at the start of each year, with the three remaining quarterlies taking the form of a chart pack. This report is our second quarterly with reduced commentary. Please reach out should you wish to discuss any of the trends observed in the charts.

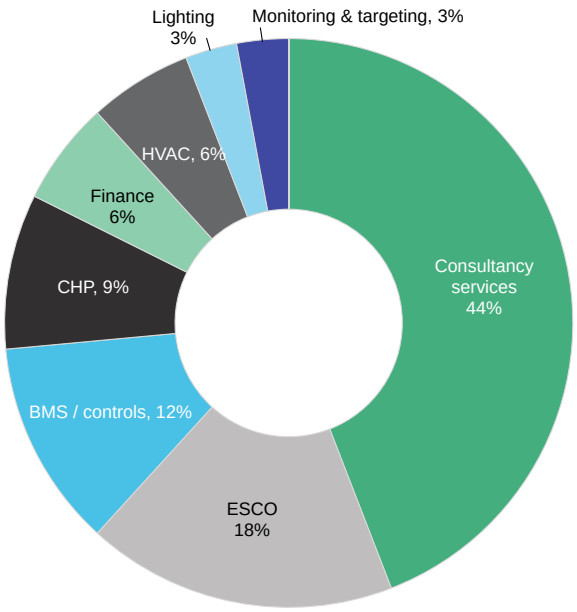
Figure 30: Who completed the survey? Q2 2016



Source: EEVS, BNEF

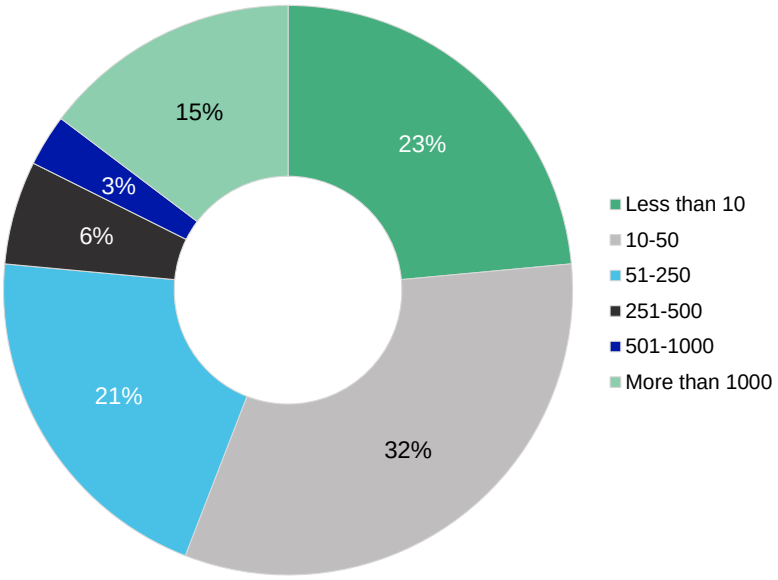
Appendix B: Supplier respondents

Figure 31: Breakdown of respondents by supplier type, Q2 2016



Source: EEVS, BNEF

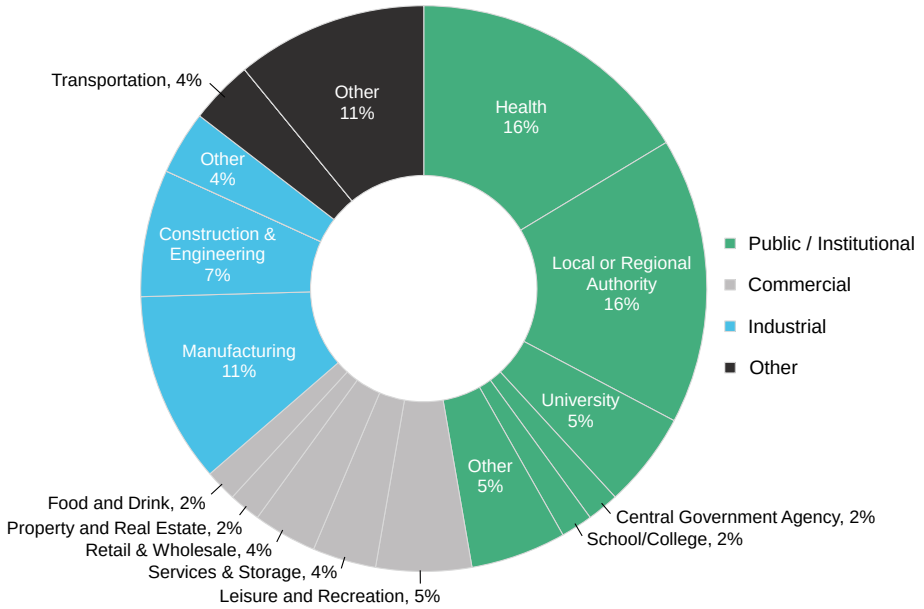
Figure 32: Supplier respondents' organisation size (no. of employees), Q2 2016



Source: EEVS, BNEF

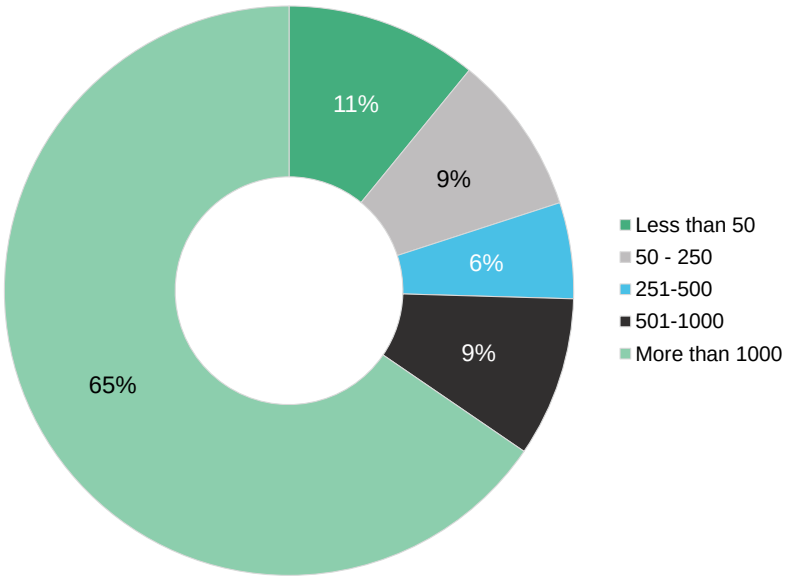
Appendix C: Consumer respondents

Figure 33: Consumer respondents by sector, Q2 2016



Source: EEVS, BNEF

Figure 34: Consumer respondents' organisation size (no. of employees), Q2 2016



Source: EEVS, BNEF

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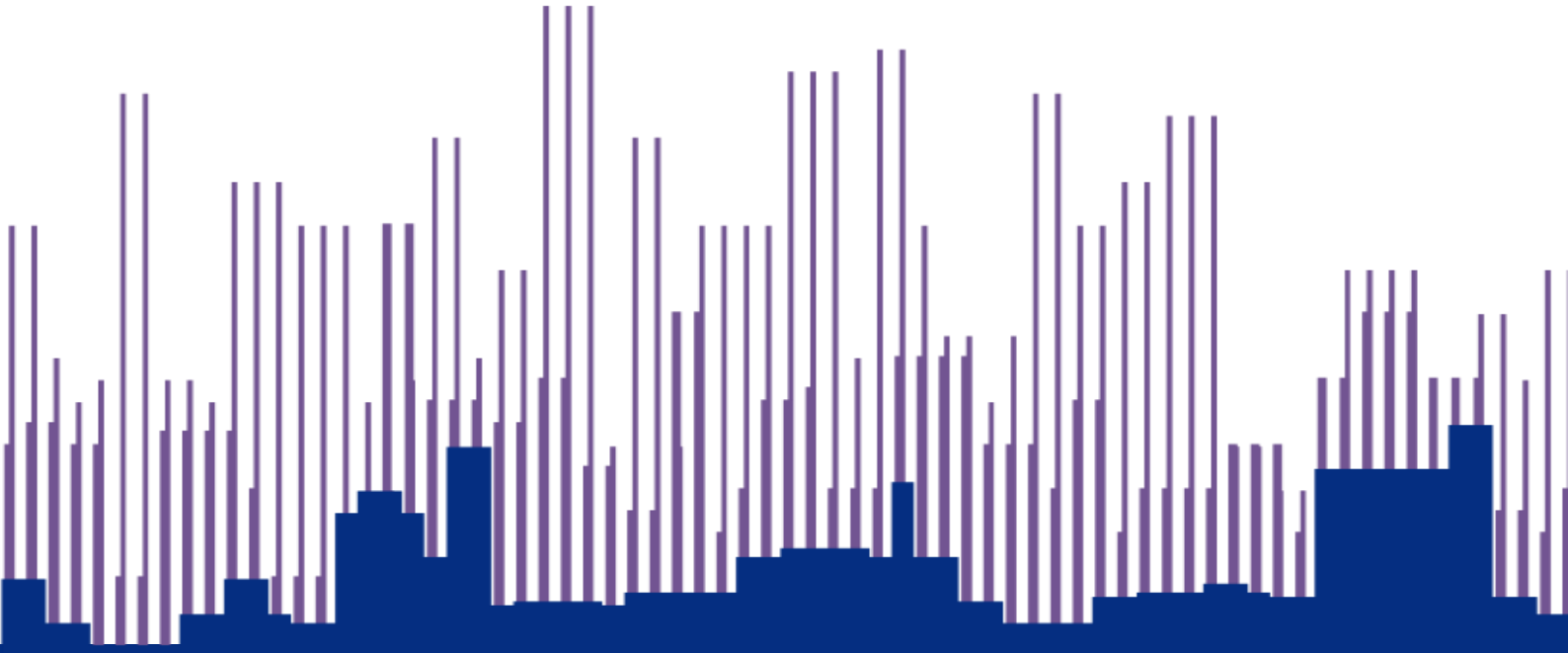

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